'09 B – Memo 8
2 Attachments
4 Items on Guest\Forms&Memos

INTRODUCTION

The Governor's 2009 Biennium Executive Budget will be prepared and distributed in November 2006 in accordance with provisions of Title 17, Chapter 7, part 1, MCA. The budget will be completed using the Montana Budget Analysis and Reporting System (MBARS) in accordance with the technical manual available on the MINE page. The purpose of these instructions is to provide the policy guidance and the specific schedules that are to be used in preparing the 2009 Biennium Executive Budget.

Agencies will submit budget requests to the Governor's Office of Budget and Program Planning (OBPP) between August 23 and August 31 as planned and scheduled in Attachment 1 herein. Final drafts of legislation will be submitted by agencies to the OBPP for transmittal to the Legislative Services Division (LSD) between August 1 and October 31, with appropriations bills in October and early November. The statutory date for the OBPP to transmit personal services funding and the present law base to the Legislative Fiscal Division (LFD) is October 30. The projected date for the revenue committee to make changes to economic assumptions/revenue estimates is mid-November. The OBPP will provide a final copy of the executive budget (EB), including all long-range planning recommendations and the proposed pay plan schedule, to the LFD by the November 15 statutory deadline. The 60th Legislative Assembly convenes on Wednesday, January 3, 2007.

MBARS BUDGET REQUEST TRAINING

The OBPP will have annotated MBARS screens handouts for distribution at the training. Beginner sessions of the training are scheduled in the SABHRS Training Center on August 14th, 15th, and 16th at 2 pm each day. Refresher classes will be held in Rm 172 in the Capitol Building at 10 am each day. Contact Jeanne Nevins at x3616 if you need to sign up for a class.

GENERAL FUND LIMITS

As you have seen in the papers, the ending fund balance for FY 2006 was higher than anticipated, however, much of the revenue is one-time in nature and is not anticipated to continue through the next biennium. There are still more needs than we will have funding to cover, but we hope to cover most present law requirements. Target budget levels for general fund expenditures have not been established at this time. Agencies are requested to submit all approved and pending decision packages with the budget request, trying to keep the requests to a minimum. Keep in mind, not all current "pended" DPs will be approved.

BUDGET REQUEST PREPARATION AND SUBMISSION

On August 11, Amy Sassano from the OBPP will advise each state agency when its budget database is complete and when the MBARS agency budget "A" version is available for budget preparation. Security was established with each agency during the Executive Planning Process (EPP). Agency security officers should contact Barb Thomas at x2503 for new users.

REQUEST PREPARATION TASKS:

1. Verify base and EPP approved and pending decision package information
2. Review and update funding options by first level
3. Enter base adjustments, allocate the fixed costs (contained in Attachment 2) and the State Building Energy Conservation Program savings (contained in Attachment 4) to appropriate programs
4. Review FTE allocations and adjust among RLs within programs as necessary
5. Fund Adjusted Base Budget
6. Edit/Build present law decision packages (DPs)

7. Edit/Build new proposal decision packages (DPs)
8. Edit/enter new revenue estimates
9. Enter/Edit narrative for the agency, each program, subprogram if previously agreed upon, and each decision package (DP)
10. Prepare agency 5 percent reduction plans
11. As applicable, prepare decision packages for all statutory authority
12. As applicable, prepare special information technology DPs and narrative
13. As applicable, enter "HB 576" data, proprietary rate information and narrative
14. Confirm all elements are complete and submit.

DEFINITIONS OF TERMS

Base Budget means "the resources for the operation of state government that are of an ongoing and non-extraordinary nature in the current biennium. The base budget may not exceed that level of funding authorized by the previous legislature." [17-7-102(4), MCA] The base budget for 2009 biennium budget development and analysis purposes will be the combined level of ongoing expenditures using FY 2006 actual expenditures from authority contained in HB 2, HB 447, and other permanent appropriations bills. The FY 2007 authorized budget comparable to the FY 2006 base also will be shown in select budget and analysis tables, i.e., the same appropriations bills adjusted for one-time, continuing, statutory and language authority.

Present Law Base (PL) means "that level of funding needed under present law to maintain operations and services at the level authorized by the previous legislature, including but not limited to: (a) changes resulting from legally-mandated workload, caseload, or enrollment increases or decreases; (b) changes in funding requirements resulting from constitutional or statutory schedules or formulas; (c) inflationary or deflationary adjustments; and (d) elimination of nonrecurring appropriations." [17-7-102(10), MCA]

New Proposals (NP) means "requests to provide new non-mandated services, to change program services, to eliminate existing services, or to change sources of funding. For purposes of establishing the present law base, the distinction between new proposals and the adjustments to the base budget to develop the present law base is to be determined by the existence of constitutional or statutory requirements for the proposed expenditure. Any proposed increase or decrease that is not based on those requirements is considered a new proposal." [17-7-102(9), MCA]

One-Time-Only Appropriations (OTOs) refer to funding authorized by the previous legislature, which was assigned a separate subclass by the OBPP due to appropriation restrictions in HB 2 that a specific amount of the funding/FTE was not to be included in the base budget for the next biennium or the authority was administratively created.

Reporting Levels (RLs) are used to group expenditure and budget data for reporting and analysis. There are up to seven (7) different levels within a given RL, designated by a sixteen-digit string. Reports can be generated at levels 1 - 4. Level 4 (RL4) is the analytical level at which agencies submit budgets and at which both the OBPP and the LFD analyze, adjust, and maintain approved data. RL4s are used sparingly for clearly-defined functions within a state government program, primarily when funding sources and/or constraints are different for that function than for other functions within the program, but also for statutory and proprietary funds. Each budget decision package must be mapped to an RL4. In a few large, complex programs some functional areas may be significant enough to be isolated at RL3 (subprogram) for printing as informational tables in the EB or the LFD budget analysis.

Proprietary functions funded by HB 2 may be included in an RL4 with other HB 2 funds or may have a separate RL4. Proprietary functions funded outside HB 2 must have a distinct RL4.

Adjusted Base is the first column for each fiscal year in the MBARS screens B210 and B211 that shows the base budget *plus* personal services costs for all current level HB 2, Proprietary (HB 576) and Statutory (SA) FTE, and all OBPP/LFD approved adjustments for inflation/deflation for the ensuing biennium, and the fixed costs amounts charged to agencies by other state agencies that each agency is responsible for allocating in its budget request.

The adjusted base amounts plus all of the approved and recommended PL decision packages comprise the PL Base Adjustment columns in the agency and program tables in the EB and in the LFD analysis books. The PL Base Adjustment total is the same as the statutory definition of the present law base.

IMPLEMENTATION OF THE BUDGET

Base Budget

The OBPP has developed the **Base Budget** for the 2009 Biennium Executive Budget, by working with each agency and the LFD to reach a consensus on which adjustments need to be made to the combined HB 2/HB 447 (pay plan) and ongoing cats and dogs level of funding authorized by the previous legislature. The base budget includes all approved agency reorganizations, program transfers, and on-going appropriations from other bills that were rolled into HB 2 from the previous session. Statutory appropriations require separate DPs.

Actual FY 2006 expenditures of biennial appropriations are included in the FY 2006 base budget. The balance of a biennial appropriation will be shown in the FY 2007 authorized budget column.

Fixed Cost and Special Purpose Schedules - The approved fixed cost and informational schedules are Attachment 2, which is in Guest\OBPP Info. See task 3 for details.

PRESENT LAW BASE

Consistent with substantive law, the present law base will be expenditures, funding and FTE required to maintain operations and services at the level authorized by the previous legislature, including legally-mandated workload, caseload, or enrollment increases or decreases, but excluding funding shifts which must be new proposals in accordance with 17-7-102(9), MCA.

The present law base includes four adjustments common to all agencies statewide:

1. **Personal Services -** OBPP has prepared FY 2008 and FY 2009 personal services budgets to reflect HB 447, workers comp, unemployment insurance, FICA, retirement contribution rates, number of hours each fiscal year, longevity adjustments, and health insurance rates. Personal services schedules in the present law base reflect current level positions authorized for FY 2007. Some adjustments have been made for elected official salaries that are statutorily set as well as adjustments for the salaries of exempt staff under elected officials.

2. **Inflation/Deflation -** OBPP has developed inflationary/deflationary adjustments on selected adjustments for inclusion in the 2009 biennium present law base.

3. **Fixed Costs** - Charges to agencies by other agencies will be allocated and funded by each agency in its August budget request in accordance with Attachment 2. Each agency must allocate these amounts to the base budget. [See Attachment 2 and task 3 for specifics.]

4. **Vacancy Savings -** Any applied vacancy savings rate will be shown as a separate line in the statewide adjustments.

B. Each agency will need to review and update all other present law decision packages (adjustments) related to workload increases or decreases, equipment needs based on replacement schedules or workload, and other functional adjustments

REQUEST PREPARATION TASKS

1) VERIFY INFORMATION

You will receive an MBARS electronic "A" version of your agency download fiscal year end (FYE) 2006 budget data. Incorporated into the download are the approved and pending EPP decision packages. Verify the information. In the event of questions, please call your executive budget analyst.

The Adjusted Base for FY 2006 and FY 2007 includes fully-funded personal services costs in the 61000 accounts. In addition, the following accounts have been inflated/deflated *from the FY 2006 base* amounts due to the new recommended amounts/rates:

Acct	Name	FY 2008	FY 2009
62142	Disk Storage	-4.40%	-4.40%
62172	Batch CPU	-4.50%	-4.50%
62177	TSO CPU	-4.50%	-4.50%
62178	IDMS/CPU CICS ADS	-4.50%	-4.50%
62180	CICS CPU	-4.50%	-4.50%
62225	Reference Books	14.00%	21.90%
62304	Postage	8.60%	8.60%
62404	In-State Motor Pool	19.60%	14.70%
62510	Motor Pool – Leased Vehicles	19.60%	14.70%
62601	Electricity	5.20%	7.50%
62603	Natural Gas	31.00%	31.00%
63125	Library Books	14.00%	21.90%
Food (Accounts 62205, 62251, 62252, 62253, 62254, 62264, 62275, 62278, 62279, 62288, 62289, 62291, 62292, 62298)		4.60%	6.40%

No other inflation or deflation is included in the adjusted base budgets for FY 2008 and FY 2009. Agency requests for other changes to the adjusted base budget must be included in present law adjustment decision packages (DPs).

2) REVIEW & UPDATE FUNDING OPTIONS

On MBARS, review and update the pay plan funding options for each RL (Preparation/General Budgeting/Fund Distribution). **The only task that must be completed is Pay Plan Funding - Group 2. A separate pay plan funding distribution must be completed in Group 2 for <u>each</u> budget RL.** If FTE are reallocated during the budgeting process [task 4], then you likely will need to revisit the funding option again prior to submission of your budget. This screen must be completed for each RL4, or you will not be able to submit the budget. These funding splits are used to calculate agency allocations from any legislatively approved pay plan.

There will be one funding group besides group 2. This group will show percentage funding splits implicit in how the agency budget was funded based on actual FYE 2006 distribution in your budget orgs for the first level accounts in the base year. Review the data for FY 2008 and FY 2009 projections. **Note, however, that the budget will be funded manually and require direct funding on the B211 funding screen. The percentages will be used primarily as reference information.**

If a new fund is required to complete the funding options detail for a group, please call or e-mail Amy Sassano x0619 at the OBPP with information regarding the fund and its name. The OBPP will assign very quickly the new number and make it available for your agency-specific use so the new row can be inserted on this screen. Amy will advise you when the new fund number is available, which will be the actual number that will be used in SABHRS if the DP is approved. If the request is approved by the legislature, the agency will need to work with the Accounting Bureau to complete the processing to establish a new fund.

3) ENTER BASE ADJUSTMENTS

3.1. Attachment 2 in the OBPP "Guest" directory shows the Fixed Cost allocation amounts by agency for the expenditure accounts listed below. Access the file at Guest\Forms&Memos\Memo 8 - Attachment 2. [Contact Jeanne Nevins (x7385) if you cannot access this information.] Although most agencies will be billed in the next biennium consistent with the amounts budgeted, there may be a few exceptions, notably network fees that are based on the number of active directory connections actually on the system, warrant writing fees for warrants actually issued, and that portion of lease vehicles based on number of miles driven.

Account	Fixed Cost
62104	DofA Insurance
62113	DofA Warrant Writing Fees
62114	DofA Payroll Service Fees
62122	Legislative Audit Fees
62148	DofA SABHRS Costs
62174	DofA Desktop Services Rate
621A7	DofA Web Services Rate
62307	DofA Messenger Services
62510	Motor Pool Lease Vehicles
62527	DofA Capitol Complex Rent
62770	DofA Capitol Complex Grounds Maintenance
62888	DOA SWCAP

Allocate the amounts for each fixed cost to your adjusted base budget in the first year and the second year [use the Budget Request Detail-B211 screen]. The expenditure accounts for the fixed costs will appear white [rather than gray] in MBARS, indicating that you can enter the fixed cost amounts. The Fixed Costs sub-schedules for Attachment 2 show details to assist you in determining the proper allocation to programs and RLs to HB 2, proprietary, or statutory sources of authority in MBARS, based on agency functions and internal management plans.

Please note that all fixed costs are applicable to all funding sources, including general fund. Also note that the amount for **legislative audit fees (account 62122)** is a biennial amount and should be assigned to FY 2008.

The **Desktop Services Rate (account 62174)** is $76.00 in FY 2008 and $80.00 in FY 2009 and is based on a snapshot of active directory connections. Agencies will be billed based upon monthly snapshots throughout the next biennium.

In order to reduce pressure on raising the desktop service rate, there will be a new web services fee. The new **Web Services Rate (account 621A7)** is based upon annual web visits to agency's website. The fee is designed to recover the costs incurred by ITSD to provide web services and the infrastructure necessary to support more than 36 million web visits each year. This rate does not go into effect until FY 2009.

The rate for **SABHRS (account 62148)** is based on both FY 2006 total FTE by agency as of the snapshot date, the number of journal entries included in transactions submitted for SABHRS processing, and the number of MBARS decision packages and EPP proposals. The allocation will be based on the respective percentage of actual expenditures for SABHRS HR, SABHRS Financial, and MBARS.

Because the agency **adjusted base budget request total for all of the allocated fixed cost accounts must be equal to Attachment 2, any adjustments for amounts unrelated to the fixed costs must be made in other DPs**. If you find an error in a fixed cost amount, contact Christi Jacobsen x4895.

The agency legal services rate will increase at $84.00 per hour for attorneys and $50.00 per hour for investigators. The Secretary of State ARM filing fees rate is anticipated to be $50 per page.

3.2. The rate structure for **Motor Pool lease vehicles** (account **62510**) is based on a both an assigned time rate and a mileage rate. This rate assesses a daily charge for the agency possessing the vehicle and a per mile charge for vehicle usage. The daily charge allows the Motor Pool to recover fixed costs such as principal and interest on the vehicle loans, personal services and insurance. The per-mile charge allows the Motor Pool to recover variable costs such as gas, tires, and maintenance.

Each agency that has any lease vehicles from the Motor Pool should find an Excel spreadsheet on the OBPP server at Guest\Forms&Memos with multiple sheets in the file. The **Attachment 3** summary sheet shows all lease vehicle budgets for an agency from current vehicles through FY 2009. The spreadsheet lists the vehicles that agencies have/will receive in FY 2007 and is based on estimated mileage. Since these vehicles have already been approved by the legislature but are not included in the base budget, they should be added to the adjusted base budget. **Agencies should ADD the amounts on the spreadsheet to the amount in account 62510 in the adjusted base budget columns**. OBPP will verify that the amounts in this account have been adjusted correctly.

For vehicles requested for the next biennium, the Excel file has worksheets for FY 2008 and FY 2009. The amounts listed should be recorded in the appropriate DPs in account 62510. In addition, the offsetting costs should be recorded as a negative in the same DPs in accounts 62716 and 62216. OBPP will verify that the amounts have been fully allocated.

For questions regarding the lease vehicle spreadsheets or if you are unable to access them on the OBPP guest directory, contact Christi Jacobsen at x4895 or chjacobsen@mt.gov.

3.3. Adjust State Building Energy Conservation Program amounts using **Attachment 4** in the guest directory, as applicable. Some projects will have completed the debt service on the 10-year general obligation bonds. **Negative DPs for the savings which are specifically supported by utility data need to be created by DofA, DPHHS, MSDB, DFWP, DOJ, DOC, DMA, UofM and Montana Tech**, as shown on Attachment 4.

The Department of Environmental Quality (DEQ) manages the State Building Energy Conservation Program (SBP) to reduce operating costs in state facilities by identifying and funding cost-effective energy-efficiency improvements. Through this program, the state sells general obligation bonds, uses the bond proceeds to pay for energy-efficiency improvements, and uses the resulting energy cost savings to pay the debt service on the bonds. The projects are designed so that the cost savings exceed the bond debt service. **Agencies participating in this conservation program need to reallocate their energy savings from utilities to the SBP Energy Savings account 62608**. The agencies listed above have completed or substantially completed projects. After ten years, this process will have captured enough cost savings to retire the bond. DEQ will reevaluate the project's remaining savings amount based on the expected life of installed measures. Any remaining savings will be depreciated to 0 at 15 years. See Attachment 4 for the **energy savings which must be reallocated to account 62608 in the adjusted base budget**: **For prior projects, confirm that the base budget includes the amounts contained in the FY 2008 and FY 2009 columns in account 62608. If adjustments are necessary to achieve the amounts in the FY 2008 and FY 2009 columns, create a negative in *new* account 62609 Utility Reductions for SBP and increase 62608 by a like amount. For new projects, create a negative equal to the amount shown in the FY 2008 and FY 2009 columns in 62609 and increase 62608 by like amounts**. Agencies located on the Capitol Complex, that are listed under the Department of Administration in Attachment 4, will not need to make any budget entries because DofA already has included the amounts in the rental rate.

4) REVIEW FTE ALLOCATIONS AND ADJUST

The personal services allocations by position in each program have been downloaded to RLs based on actual FYE 2006 distribution of expenditures. For most agencies, a review of the data will be the only task. **Reallocation among RLs within a program** [Personal Services Detail/Position Allocation] **is the only allowable FTE change to the base budget.** In RLs with multiple funding sources, it also may be necessary to adjust the proportional splits used to fund positions in the affected RLs, as discussed under task 2 above [Preparation/General Budgeting/Fund Distribution]. Pay special attention to positions with no expenditures during FY 2006. HB 2 positions must be allocated to HB 2 reporting levels, HB 576 positions must be allocated to HB 576 reporting levels, and SA positions must be allocated to SA reporting levels.

NEW: A new feature in MBARS allows allocation of multiple positions at one time. See the MBARS training guide or the MBARS users guide on the MINE page for more details.

Changes to FTE or personal services amounts, for example moving employees from training positions to permanent positions or adding overtime and differential pay, must be requested as part of DPs--either present law or new proposals--as discussed under tasks 6 and 7.

5) FUND ADJUSTED BASE BUDGET

When the adjusted base budget request has been completed, each RL must be funded using the B211a Budget Request Funding Detail screen. Do task 5 after completing the funding options, the base adjustments for fixed costs and energy savings, and the FTE/personal services allocations. Remember that funding switches require a NP DP and cannot be completed in task 5.

6) EDIT/BUILD PRESENT LAW DECISION PACKAGES

Your download data includes all submitted present law (PL) requests that were pending through EPP. You are encouraged to adjust and edit these PL DPs consistent with accounting changes, fiscal year end data and additional planning information unknown last spring. **For all approved/pending EPP request DPs copied forward, you must allocate the placeholder accounts 61098, 62098, 63098, etc. to third level and zero out the xxx98 accounts. When a DP copied forward involves FTE, you will need to complete the position record [Preparation/General Budgeting/Personal Services Detail]. When this update occurs, the results will be posted to the parent DP.**

Adjustments to these PLs should mean that no additional PL DPs need to be built, with few exceptions. Examples of possible adjustments to pended/approved DPs include: revising the name to better reflect the key action being requested of the Legislature; adding accounts; increasing/decreasing FTE and expenditure amounts based on workload indicators; adjusting the funding; updating the narrative justification and documentation. Remember that the DP name is to be no more than 50 characters (counting spaces) and *legislator friendly*. The name you give it will be the name that appears in the Present Law Adjustments Table for legislative action on this program budget.

Consistent with 17-7-102(10), MCA, **PL adjustments will include “that level of funding needed under present law to maintain operations and services at the level authorized by the previous legislature, including but not limited to:**
(a) changes resulting from legally-mandated workload, caseload, or enrollment increases or decreases;
(b) changes in funding requirements resulting from constitutional or statutory schedules or formulas;
(c) inflationary or deflationary adjustments; and
(d) elimination of nonrecurring appropriations.”

Both the OBPP and the LFD are encouraging agencies to group all like and as many similar changes into one DP as possible. Focus on functions and funding rather than accounts. For example, a workload decrease DP may include adjustments for FTE, contract services and equipment, as well as benefits and a funding match rate change for that function. A DP can be associated with multiple RLs within a program. The DP narrative would reference the entire program.

There are no zero-based items in the expenditure account 62000 through 69000 series. The FY 2006 actual expenditures serve as the base budget and PL adjustments are recommended to that base. However, when a program has a PL adjustment DP that includes the 62000 or 63000 series, the narrative must briefly address contract services or equipment that are in the base, respectively. In most instances, a statement that consultant services are continuing at the same level, or that the agency replacement schedule for personal computers is every four years, or that vehicles are replaced at 110,000 miles, will suffice. More explanation may be required to address exceptions contained within a particular DP. For example, the narrative might say something like, "In addition to the normal replacement schedule [in the base], the budget recommends replacement of a mass spectrometer required to meet the new EPA analysis standards at a one-time cost of $250,000. The current spectrometer is 12 years old and replacement parts are no longer available. Language to exclude this from the base for the 2011 biennium budget is recommended." When there are no PL DPs for a RL or for a program, then no narrative regarding consultant services or equipment is required.

When preparing a PL DP with equipment, use the approved budget amounts listed below. Your budget analyst will evaluate all other equipment requests on a case-by-case basis.

New Employee Office Package..……...............................$1,375.00
Includes: Desk, chair, 3-shelf bookcase, side chair, and 2-drawer file cabinet

Replacement/New Desktop...$1,400.00
Replacement/New Laptop...$2,200.00
Includes: Current ITSD recommended hardware and software, but not a printer.

Some of the components which may be edited in pending or approved PL DP requests include:

- **Phased-in 2007 Biennium Modifications -** A statutorily-mandated workload phased-in modification for the current biennium will appear in a PL request that includes justification for the increased/decreased operating expenses for the entire 2009 biennium. There should be a pended PL to be adjusted based on FYE data. If a modified FTE is moving to a permanent position in the PL proposal, it should be possible to adjust the position detail budgeted amount correctly. Enter the current position number.

- **Caseload/Workload Increases/Decreases -** Workload increases/decreases from the FY 2006 actual expenditure levels will be incorporated in PL DPs: for example, foster care, public school enrollment, inmate populations, some inspections, some permit processing, and primary care. Other, less significant workload adjustments will be incorporated in approved or pending DPs.

- **Account 61000 Series [Differential, Overtime, Holidays Worked, Per Diem, etc.] - Personal services in MBARS is driven by the position detail computations and ONLY contains budget authority based on that information. All other 61000 series expenditures have been zeroed out, consistent with prior biennia.** This means that one important component of a PL adjustment DP may include a number of objects in the 61000 series such as overtime, differential, per diem for boards and commissions, and per diem adjustments for changes in board members, etc. These items should be included in a DP with other operating and equipment adjustments for the RL/program.

- **Match Rate Changes -** If federal participation in non-discretionary programs is changing, for example from 25 percent general fund/75 percent federal funds appropriated for FY 2006 to 40 percent general fund/60 percent federal funds for FY 2008 and FY 2009, this change would be part of a PL DP - Medicaid is an example of a match rate change.

- **Contract Rate Changes –** Adjustments for most ongoing contracts will be incorporated into a PL as rate increases/decreases for persons, businesses and organizations providing services for the state. Provider rate increases are in NPs.

- **Federal Medical Assistance Percentage (FMAP)** - An adjustment from the current rate to the following projection for the 2009 biennium budget may be incorporated in a PL adjustment:

	General Fund	Federal Revenue
FFY 2008	0.3173	0.6827
FFY 2009	0.3235	0.6765

- **State Motor Pool Lease Vehicles –** An Excel spreadsheet for each agency that uses lease vehicles is located on the OBPP server at Guest\Forms&Memos. Those vehicles that have offsetting costs can be included in a PL DP. Those new vehicles with no offsetting costs should be included in a NP DP. See further discussion of lease vehicles under fixed costs.

- **Biennial Appropriations –** Actual FY 2006 expenditures of biennial appropriations are included in the FY 2006 base budget. The balance of a biennial appropriation will be shown in the FY 2007 authorized budget column. For balance sheet purposes, it is preferred that biennial approps are split between fiscal years as they are anticipated to be spent. Please make the necessary adjustments in a DP to record biennial approps in your budget request. If you have questions about how to make these adjustments, contact your assigned budget analyst.

7) EDIT/BUILD NEW PROPOSAL DECISION PACKAGES

Your download data includes all submitted NPs that were approved or that are still pending through the EPP for the 2009 biennium. You are encouraged to adjust and edit these NPs consistent with accounting changes, fiscal year end data and additional planning information. Some pending NPs were only preliminary placeholders for committee reports. Remember that the DP name is to be no more than 50 characters (counting spaces) and *legislator friendly.* The name you give it will be the name that appears in the New Proposal Table for legislative action on this program budget.

In accordance with 17-7-102(9), MCA, **new proposals "means requests to provide new nonmandated services, to change program services, to eliminate existing services, or to change sources of funding...the distinction between new proposals and the adjustments to the base budget to develop the present law base is to be determined by the existence of constitutional or statutory requirements for the proposed expenditure. Any proposed increase or decrease that is not based on those requirements is considered a new proposal**."

Already-approved Budget Amendments - If information is available that a budget amendment (BA) will be continuing through the 2007 biennium and into the 2009 biennium, the projected request is to be submitted during EPP in accordance with 17-7-402(6), MCA.

The NP decision package request name should be clear. The BCD reference number, subclass number and name must be included in the narrative justification. If there are any FTE, the current SABHRS position number and attributes must be used.

Continue to submit all BA BCDs as soon as possible throughout budget development and the legislative session.

1. **Processing BA BCDs up until the legislature convenes (January 3, 2007)**

   IF: This is a one-time award that will not extend beyond September 30, 2007.
   THEN: Agency and OBPP do not need to put any authority into HB 2 (General Appropriations Act) or HB 4 (Budget Amendment Bill). 17-7-402(1)(f) allows the budget amendment to extend to the end of the federal fiscal year.

   IF: This is a one-time award that goes past the end of the federal fiscal year (September 30, 2007), but does not continue beyond the federal FY 2009.
   THEN: OBPP will include language in HB 4 for "…all remaining federal authority from FY 2007 can continue into FY 2009."

   IF: This is an award that extends beyond the 2009 biennium.
   THEN: The agency should budget an amount in MBARS for HB 2.

2. **Processing BA BCDs after the legislature convenes but before Senate Finance & Claims meets (approx. April 6, 2007)**

   For all BAs received during the legislative session, regardless of duration, OBPP will draft an amendment to HB4, and HB2 if necessary. BCDs will not be processed until after the Governor has signed HB 4. Each agency must submit a BCD immediately upon receipt of the award to ensure inclusion in HB 4. If an agency receives a federal award during the legislative session and does not submit a BA BCD for inclusion in HB 4, OBPP cannot legally process the BCD after session.

3. **Processing BA BCDS after Senate Finance & Claims Committee meets on HB 4 (approx April 6, 2007)**

   Submit BCDs as usual. Agency must not have had knowledge of award prior to this date, or OBPP cannot approve the BCD.

Funding shifts will require a NP in the budget request. If a funding shift or new source of funding is dependent upon legislation being passed and approved during the 2007 legislative session, the DP should be created with a DP Type of "Legislation". Write a bullet for such proposals under the agency narrative section called "Executive Recommended Legislation."

8) EDIT/ENTER NEW REVENUE ESTIMATES

From the Preparation/General Budgeting/Revenue Estimates screen, estimates can be updated. Your download includes the revenue accounts and funds from FY 2006 and the budgeted revenue estimate amounts for FY 2007. **Your first task is to review and <u>update</u> the FY 2007 column. This task is important because the executive budget must be balanced and your requested expenditures may be reduced if you have a shortfall in revenue over the three-year period. The second task is to add the projected revenue in the FY 2008 and FY 2009 columns.** In addition, you may insert a row to enter a revenue estimate for a new fund or revenue account.

Revenue projections for sources with multi-agency or multi-fund impacts may be available from our office. Contact your budget analyst for specific information regarding revenue sources for your agency.

This task is important. Some budgets have been reduced in the past due to projected revenue shortfalls, when the real problem was failure to update a revenue estimate.

9) ENTER ALL NARRATIVE

MBARS headers that identify the narrative blocks that will be published in the Governor's Executive Budget and completed as part of the agency budget request are listed below. The executive budget must be succinct and easy to read. You will be able to copy text prepared in either WordPerfect or Word Arial 10 pt. into MBARS. <u>When in MBARS, use Ctrl/Enter to skip a line for paragraphs.</u> Please note that if you put so much as a space or a period in an optional narrative block that you do not need to use, the header will print without narrative in the Executive Budget and the LFD Analysis because of your input. **<u>Do not type the header information within the narrative boxes.</u> The headers will be generated automatically as part of the narrative processing.**

Narrative fields for Mission, Agency Description, Statutory Authority, Program Description, and Proprietary Program Description have been copied forward from the MBARS 2007 versions into your "A" version for your review and edits. The executive budget will include the following fields:

Agency Level Only:

Mission Statement – [Edit]

Statutory Authority – [Edit]
[Optional] Reorganization -
[Optional] Supplemental Appropriation Description -
[Optional] Executive Recommended Legislation [edit as needed]-
Executive Budget Recommendation - [Please leave this field blank for OBPP use]
[Optional] Language - [for HB 2 at the agency level]

Program Level Only:

Program Description - [Edit this BRIEF description and short statutory reference]
[Optional] Program Reorganization
Executive Budget Recommendation - [Please leave this field blank for OBPP use]
[Optional] Language - [for HB 2 or Proprietary (HB 576) authority at the program level]
Decision Package (DP) Narrative - There is space to describe and justify each DP. For all of those EPP requests approved or still pending, the "EPP RequestJustification" has been included in the FYE 2006 download under the new heading DP "Narrative". The first paragraph should be a concise request description that states what, where, when, why, and how. The cost or savings should be stated as a total biennial amount, with an indication of how much general fund, if any, supports the DP. **The second and following paragraphs may be used for additional background information and detailed justification and must be marked by putting square brackets [ ] around it.**

Please write a short paragraph (1-2 sentences) summarizing the DP--see examples in the 2007 biennium Executive Budget. **Then write any additional narrative justifying the request surrounded by square brackets [ ].** The purpose of the DP narrative is threefold: (1) Present the concise request description paragraph as you would like it to appear in the EB and LFD budget analysis; (2) Provide adequate information for analysis as you work with the OBPP to finalize your budget recommendations; and (3) Present the additional justification that the LFD may use and/or publish in its analysis of the budget.

In addition, the LFD will prepare additional narrative for its analysis. You are requested to enter this information in the MBARS as well: **Agency Description** [copied forward from 2007 for your edits] and **Funding** at the program level.

NEW: The LFD has kicked off a new process to collect additional information related to certain DPs that significantly expand or create a new service or function. Training was conducted by the LFD in early August related to these narrative requirements. Your assigned OBPP and LFD analysts have met to agree upon these DPs that will require the additional narrative, and will be contacting your agency individually to relay the affected DP numbers. For each DP specified by your OBPP analyst, please include answers to the following questions in the DP narrative. Please number the answers to correspond to each question.

1. Why is this proposal needed?
2. What are the goals of the proposal?
3. How will progress be measured?
4. When will key activities to the proposal be completed?
5. Who will do the work?
6. How does the funding work?
7. What are the challenges to implementing this proposal?
8. What is the risk to the state if the proposal is not adopted?

For additional information about these questions, and sample answers, go to http://leg.mt.gov/content/publications/fiscal/LFD_training/Agency_info.pdf

Agency Organization Charts
The OBPP will be inserting **agency organization charts** into the executive budget separate from MBARS. The org charts are in electronic files at OBPP in ViSio software. A hard copy has been distributed with Memo 6 under separate cover for your updates and is due back on or before September 13th.

Key Program Indicators
Each agency has been asked to present **two or three key program indicators** for FY 2004 through requested FY 2009. The program indicator(s) will appear in the Executive Budget narrative. Information regarding program indicators also was included in Memo 6. A file containing the program indicators for your agency from the 2007 biennium EB is located on Guest\Performance Indicators\XXXX. The files should be edited as appropriate and saved back to Guest by September 13th or earlier.

10) 5 PERCENT BUDGET REDUCTION PLANS - IMPLEMENTING 17-7-111(3)(f), MCA - DUE SEPT. 8th

The provision in 17-7-111(3)(f), MCA requires that reductions in state agency base budgets be available to the legislature and the Governor. The statute states:

> (f) for only agencies with more than 20 FTE, a plan to reduce the proposed base budget for the general appropriations act and the proposed state pay plan to 95 percent of the current base budget or lower if directed by the budget director. Each agency plan must include base budget reductions that reflect the required percentage reduction by fund type for the general fund and state special revenue fund types. Exempt from the calculations of the 5 percent target amounts are legislative audit costs, administratively attached entities that hire their own staff under 2-15-121, and state special revenue accounts that do not transfer their investment earnings or fund balances to the general fund. The plan must include:
> (i) a prioritized list of services that would be eliminated or reduced;
> (ii) for each service included in the prioritized list, the savings that would result from the elimination or reduction; and
> (iii) the consequences or impacts of the proposed elimination or reduction of each service.

Note that most state special funds are exempt from these 5 percent reduction plans, but some state special funds are still subject to these provisions. It is difficult to determine if some state special funds should be excluded from the calculations. If you have questions or concerns about what was included or excluded, please contact Amy Carlson at x4893.

An agency plan may reduce only one program, or one field office with multiple programs, or any combination of programs and services. It is suggested that each agency assess the impact on services, workload, employees and constituents in making those determinations based upon affecting the least impact to the citizens of Montana.

Sometimes the services listed for possible reduction or elimination will be required by statute and sometimes they will be either implied or assumed to be necessary under the law. The agency plan will explain the specific authority for providing the services and identify what statutory or rule change would be necessary if the reduction plan were to be implemented.

To Implement These Provisions During Budget Development

1. Go to the OBPP Guest directory and open the folder called 5% Plans\5%_FORMS.xls. SAVE as Guest\5% Plans\XXXX\XXXX.xls where XXXX is your agency code.
2. Go to 5% Plans\Memo 8 - Attach 5 Five Percent Reduction Amounts 09 bi.xls. Your target amounts are based on FY 2006 HB 2/447 expenditures, excluding OTO expenditures, and other exemptions provided by the law. Copy the general fund and the state special revenue fund target amounts for your agency to your new XXXX file in Form A.
3. Complete Form A - a list of the services that would be eliminated or reduced.

4. Complete Form B for each service listed on Form A. [Ten copies have been provided. Duplicate Form B if necessary—right click on the tab, move or copy, check create a copy, and OK.] Form B is designed to provide:
   - a brief description of the service, including why it can be considered for elimination or reduction;
   - the savings that are expected (# of FTE but no position numbers; personal service costs, operating, equipment, etc. at 1st level);
   - the consequences or impacts of the proposed elimination or reduction;
   - how the impacts to constituents and staff might be mitigated; and
   - whether the service is specifically required by statute – yes or no (if yes, provide the statutory cite; if no, provide the authority under which the services are provided).
5. Complete by September 8 and send an e-mail to your budget analyst with a copy to Jeanne Nevins when your forms are saved.

11) REPORTING LEVELS FOR STATUTORY AUTHORITY

Your agency download contains RLs with FY 2006 actual expenditures of statutory authority, which is treated just like any other budget. The base expenditures are projected for FY 2008 and FY 2009, including inflation/deflation, just like a base budget. Use Preparation/General Budgeting/Budget Request and select the statutory authority RL(s) for review and update. Follow the same tasks as for other budgets, including building PL adjustment DPs to increase or decrease to the expected level.

The DofA will budget the total statutory authority for general obligation (G.O.) bond debt service for which it is responsible statewide. Agencies will budget all other funds for G.O. debt service bills from DofA. Agencies also will budget the statutorily-appropriated general fund and other funds for other purposes. **<u>Please remember to budget your statutory authority</u>.**

12) INFORMATION TECHNOLOGY SPECIAL PROVISIONS

New Proposals for Information Technology (IT) – “New investments” in information technology can be included in the Governor’s budget only if the project is contained in the approved agency information technology plan as required in 2-17-523, in accordance with 17-7-111(3)(g), MCA. New investments do include IT projects and activities that are funded through an agency’s base budget or grants. New investments in IT are not limited to just IT projects and activities funded through Decision Package (EPP) requests.

Definition of a Major IT Investment
The OBPP and the ITSD are defining a *major IT investment* as (1) $300,000 for the biennium *or* $50,000 *and* 25 percent of the IT base year expenditures of the agency; or (2) an intra- or inter-agency system change that affects IT plans for the agency or the state. **Total investment is the sum of all internal agency costs, staff time, and external IT expenses.**

A major IT investment may be funded entirely from the agency base budget, federal grants, a Decision Package request, or any other combination of funds. Agency IT investments that meet or exceed either size criteria (1) and (2) above are defined as *major IT investments*. For example, an application enhancement that requires several person-years of agency staff programming time and program staff time could be a major IT investment if the total project costs exceed (1) or (2) above.

This definition may be revised as we review the agency plans and cooperatively develop the IT recommendations for presentation to the Governor and the Legislature.

For your information, the OBPP will use the SABHRS IT expenditure accounts to prepare the statewide summary of all budget recommendations.

Major IT investments should be disclosed in sections 9 and 10 of your agency IT plan. IT Plans that are missing major IT investments will be required to be updated prior to the start of the project or activity.

***NEW* - IT Investment Questionnaire –** OBPP and ITSD are gathering background information on *all major IT investments* through a questionnaire. The questionnaire and instructions can be found in attachment 6. Scoring, recommendations, and decisions on your agencies IT investments and EPP requests will depend heavily on the information supplied through this questionnaire. Each proposed project that costs more than $300,000 for the biennium and lower-cost ones that have statewide implications will be scrutinized by information resource staff prior to recommendation in the Executive Budget. We also will be having conferences with you regarding your requests.

- **Questionnaire responses on IT investments that are Decision Packages are due to your agency OBPP analyst on the same day as your Executive Budget responses, August 23 through 31. The exact day for your agency is listed in attachment 1 of the Budget Instructions.**
- Questionnaire responses on IT investments that are not funded through a Decision Package are due to your agency OBPP analyst on September 15, 2006.

IT Investment Budget Summary – The OBPP is required to prepare, in cooperation with the Department of Administration ITSD, a statewide summary of *major new IT investments* contained in the state budget. The project summary will include:

- A listing by agency of all major new IT budget requests included in the state budget, with (a) description of what would be accomplished by funding the request, (b) the proposed amount of the request, (c) the funding source(s) for the request, and (d) the proposed cost of operating the new information technology systems. **You will need to address each of these points in your questionnaire responses.**
- A listing of internal service rates proposed for providing IT services, with (a) a description of the services provided and (b) a breakdown, aggregated by fund type, of requests included in the state budget to support the rate.

13) PREPARE PROPRIETARY (HB576) DATA, RATE INFORMATION & NARRATIVES

Proprietary Programs - Passage and approval of HB 576 in 1995 eliminated the requirement that internal service and enterprise funds collected in return for the provision of service or product be appropriated (except for proprietary funds that transfer their balances to the general fund). In lieu of appropriation, 17-8-101, MCA, states:

"(6) Fees and charges for services deposited in the internal service fund type must be based upon commensurate costs. The legislative auditor, during regularly scheduled audits of state agencies, shall audit and report on the reasonableness of internal service fund type fees and charges and on the fund equity balances.

"(7) The creation of accounts in the enterprise fund or the internal service fund must be approved by the department (of Administration), using conformity with generally accepted accounting principles as the primary approval criteria. The department shall report annually to the office of budget and program planning and the legislative finance committee on the nature, status, and justification for all new accounts in the enterprise fund and the internal service fund.

"(8) Enterprise and internal service funds must be appropriated if they are used as a part of a program that is not an enterprise or internal service function and that otherwise requires an appropriation. An enterprise fund that transfers its ending fund balance to the general fund is subject to appropriation. The payment of funds into an internal service fund must be authorized by law."

The form of the Executive Budget required by 17-7-123, MCA, includes:

"(f) A report on:

(i) enterprise funds..., including retained earnings and contributed capital, projected operations and charges, and projected fund balances; and

(ii) fees and charges in the internal service fund type, including changes in the level of fees and charges, projected use of the fees and charges, and projected fund balances. Fees and charges in the internal service fund type must be approved by the legislature in the general appropriations act. Fees and charges in a biennium may not exceed the level approved by the legislature in the general appropriations act effective for that biennium."

In accordance with 17-8-101(8), MCA, the EB program tables will show only those proprietary funds that are part of a program that requires an appropriation. If planned actions would affect the rates charged to budgeted programs, for example, expansion of non-appropriated management services for an agency, then the action requires a new proposal request. The rate approved by the legislature for the 2007 biennium will be the present law base, as will the three adjustments common to all agencies, discussed immediately below, i.e., personal services, inflation/deflation and fixed costs. Any issue that changes the legislatively-adopted rate must be submitted in MBARS and must uniquely quantify the impact to the base rate as part of the decision package justification.

Agencies are to submit DP requests for all budgets funded with proprietary funds [with or without HB 2 authority]. To work on the MBARS portion of a proprietary budget request, click on the Preparation/General Budgeting/ Budget Request and select the proprietary authority RL(s) for review and update. Complete as many NP or PL decision packages as necessary. Under Preparation/General Budgeting/Narrative Input (at the program level), click on the proprietary narrative selections to enter narrative for the budget submission. Do NOT key in the headings—they already are printed automatically in the Executive Budget book. Please edit/write the narrative in accordance with the following instructions.

Proprietary Program Description. Your Proprietary Program Description has been copied forward from the 2007 biennium Executive Budget version of MBARS into your "A" version. For each fund **<u>BRIEFLY</u>** explain the service provided, historical perspective, and/or any points of interest about the fund. Provide the number of FTE funded from the revenues generated and any statutory authority for the program.

FOR Internal Service Funds ONLY, add the following:

- Alternate Sources: Discuss the availability of alternate sources for the services provided by the program.
- Customers Served: Describe the customers served by the program, noting any for whom use of the program is mandated.
- Major Changes: If applicable, for the previous and current biennium, describe any reorganization or major change to services provided or to your customer base.

Revenues and Expenses. *[Please list and write brief, non-repetitive narrative for items 1 - 4 in order.* Subheadings MUST be input.]

- <u>Change in Services or Fees</u>. Explain and compare the cost drivers, the expected volume, or any other relevant points if there are any changes. If none, state that there are no changes in services or fees.
- <u>Working Capital Discussion</u>. Using the calculation that will be in the Excel spreadsheet (the formula = 60 days of personal services, operations, and miscellaneous operating less non-cash expenses), explain the amount of cash needed to maintain an ongoing operation. If there is a need to vary from this formula, document and explain the variance. In the case of internal service funds, explain how/if working capital is considered in the determination of the rates.
- <u>Fund Equity and Reserved Fund Balance</u>. Describe, for all years, any requirement that the program has to reserve fund balance. The difference between the Total Fund Equity and the Reserve is to be entered on the Excel spreadsheet line "Unreserved Fund Balance." Explain management objectives to increase/decrease/maintain fund balances as compared to the FY 2006 base year fund balance.
- <u>Cash Flow Discussion</u>. Explain the fluctuation of cash into the program, if any, and any significant reoccurring cash obligations that must be covered by cash on hand or loans.

FOR Internal Service Funds ONLY, add the following for *each rate* charged by the program:

- Specific service(s) provided in exchange for customer payments and the SABHRS account(s) used by customers to record the expenditures for payment of fees and charges (6xxxx).
- *<u>Only</u>* if different from the customer base for the fund described above under the program description, cite the customer base for the specific service funded by the particular fee or charge.

- The historical and projected trends associated with the volume of services provided, with justification for projected changes.
- Base year funding, by fund type, for customer payments made to the program.

Rate Explanation. For each fund, describe very specifically the type of rate being requested (such as percentage of personal services, a fixed amount of working capital, a fixed rate, or an amount which maintains a certain ending fund balance). Explain why the rate requested is the most logical type, how the rates were determined, and any requested changes in the rates. [Enterprise funds STOP here.]

FOR Internal Service Funds ONLY, add the following for *each rate* charged by the program:

- Describe the program objectives for maintaining fees commensurate with costs, including any requirements to reserve a fund balance.
- Explain and justify the amount of working capital needed to maintain ongoing operations, including the influence of revenue and expense cycles, if applicable. If working capital is considered in the determination of rates, justification must be provided.
- Describe the balance sheet accounts that contribute most significantly to any fund equity balance, including the amount of fund equity attributed to working capital.
- Explain the methodology used to allocate each unit of service to customers, such as per occurrence, percentage of base year personal services or fixed rate.
- If applicable, explain and justify any instance where the methodology used to develop the requested fee or rate is different than the methodology used to develop the fee or rate actually billed to the customers.
- Explain how the requested rates were determined.
- For programs with more than one rate providing revenues to a single internal service fund, explain the allocation methodology for distributing indirect costs to separate rates. [Provide a supplemental schedule with the following information for *each rate*:
    - Actual rate(s) charged or anticipated to be charged to the customers;
    - Legislatively approved rate(s);
    - Actual and forecasted volume of services used in rate requests;
    - Allocation of indirect costs broken out by first level SABHRS expense accounts;
    - Direct costs broken out into first level SABHRS expense accounts and designated with the percentage of direct costs that are fixed or variable costs.

Expenses. FOR Internal Service Funds ONLY describe all expenses incurred by the program, identifying and explaining:

- Major cost drivers of each separate rate, including the assumptions used to anticipate future expenses related to the cost drivers, and any factors contributing to uncertainty in forecasting these expenses.
- If applicable, any non-typical and one-time expenses included in the data range.
- If applicable, variations in expense patterns.
- The number of FTE funded during the base year.

Significant Present Law. Internal service programs ONLY will:

- List separately and describe all significant Present Law (PL) adjustments (those which have an effect on the requested rate or that change a current service).
- Provide the amounts associated with each PL adjustment.
- Explain the impact of each PL on the requested rate and on the unreserved fund balance.

New Proposals. Internal service programs ONLY will:

- List separately and describe all new proposals (NPs) associated with this rate.
- Provide the amounts associated with each NP.
- Explain the impact of each NP on the requested rate and on the unreserved fund balance.
- If there is a funding switch NP for the program, describe fully in the NP narrative the total dollar amount and justification for the request and, to comply with the above referenced memo, complete the Excel spreadsheet without showing the funding switch. **Call the OBPP for further instructions if this issue affects you.** The legislature will consider the proprietary information from the Excel spreadsheet in making the final decision on the NP.

<u>NOTE that the Fund Balance Tables for FY 2004 through FY 2009 will be prepared by the OBPP and Department of Administration as soon as data is available for FY 2006, and be distributed to you for completion of FY 2008 and FY 2009 columns.</u> You will be able to add footnotes for prior years and submit your table(s) in September.

14) CONFIRM ALL ELEMENTS COMPLETE AND SUBMIT

To submit your budget request, you will need to change the "Not Complete" status indicated on the Budget Control Checklist to "Complete" [Preparation\General Budgeting\Budget Control Checklist]. You will be notified by MBARS if you are missing any mandatory narrative and/or if your budget is not balanced when you change these status indicators. You will need to complete the required task.

Once all status boxes indicate "Complete", exit the Budget Control Checklist. Select File\Version Control, highlight the version you wish to submit, and click the Submit Button at the bottom of the screen. In addition, send an e-mail to your executive budget analyst with a copy to Jeanne Nevins jnevins@mt.gov to advise that your budget request has been submitted.

Attachments:	1 - Agency Budget Submission Schedule
Available on GUEST\Forms&Memos:	2 - Fixed Cost Detail By Agency
	3 - Lease Vehicle Addendum
	4 - State Building Program - Energy Savings
	5 - 5 Percent Reduction Information
	6 - Information Technology Survey